
**Audit of American School of Technology's
Administration of the
Title IV, HEA Programs
Columbus, Ohio**

FINAL AUDIT REPORT



**Control Number ED-OIG/A05-C0015
March 2003**

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effectiveness, and integrity of the
Department's programs and operations.



U.S. Department of Education
Office of Inspector General
Chicago, Illinois

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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Ms. Susan R. Stella
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MAR 21 2003

Dear Ms. Stella:

Enclosed is our final report entitled Audit of American School of Technology's Administration of the Title IV, HEA Programs, Columbus, Ohio. The report incorporates the comments your attorney provided in response to the draft audit report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit.

Theresa S. Shaw
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Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit, Region V

Attachment

**Audit of American School of Technology’s Administration of the
Title IV, HEA Programs, Columbus, Ohio
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Executive Summary

During the period July 1, 2000, through June 30, 2001, American School of Technology (AST) did not always administer its Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Family Education Loan (FFEL) programs according to Title IV of the Higher Education Act of 1965, as amended (HEA), and selected regulations. The objectives of our audit were to determine whether AST complied with Title IV of the HEA and selected regulations governing (1) institutional eligibility, including the 90 Percent Rule; (2) program length; (3) commissioned sales; (4) cash management; (5) financial responsibility; (6) student eligibility and award calculations; and (7) refunds.

Although it complied with the regulations governing commissioned sales, financial responsibility, and award calculations, AST

- Received \$1,100,629 of Title IV, HEA program funds after it became ineligible to participate in the Title IV, HEA programs because it did not meet the requirements of the 90 Percent Rule;
- Disbursed \$191,311 of Title IV, HEA program funds to students enrolled in an ineligible program (morning session of the Medical Office Assisting program) and students enrolled in programs for which AST overstated the amount of semester credits awarded;
- Disbursed \$26,998 of Title IV, HEA program funds to ineligible students; and
- Did not return \$881 of Title IV, HEA program funds on behalf of two students and did not make timely refunds for four other students.

In general, significant weaknesses in AST's management controls over compliance with (1) the 90 Percent Rule, (2) student eligibility, and (3) refunds caused these problems.

We recommend that the Chief Operating Officer (COO) for Federal Student Aid (FSA) require AST to return

- \$1,100,629 for funds received after it lost its eligibility to participate in the Title IV, HEA programs;
- \$191,311 because it disbursed funds to 78 students who were enrolled in an ineligible program and 33 students who attended programs with overstated course lengths; and
- \$27,879 because it disbursed Title IV, HEA program funds to ineligible students, and failed to calculate accurately two refunds.

We also recommend that the COO for FSA require AST to submit documentation supporting its 90 Percent Rule calculation for the 2002 fiscal year. The documentation will enable FSA to verify that AST was in compliance with the 90 Percent Rule for its 2002 fiscal year and therefore eligible to receive Title IV, HEA funds for its 2003 fiscal year.

AST provided comments, dated January 31, 2003, on our draft audit report. AST disagreed with Findings 1 and 2 and their recommendations and generally disagreed with Finding 3 and its recommendations. AST generally agreed with Finding 4 and its recommendations, but asserted that refunds for two students were issued timely. Finally, AST stated it has taken actions to

correct two minor weaknesses identified in the **Other Matters** section of this report. We revised several of our draft report recommendations based on comments that we received. We also dropped Finding 5 related to cash management because it was immaterial.

We summarized AST's comments after each finding, and a copy of the letter transmitting AST's comments is provided as an Attachment. Because the comments and corresponding documentation AST provided were voluminous and included numerous references to students' names and AST employees, we did not include the information. A copy of AST's comments and all supporting documentation will be forwarded under separate cover to the COO for FSA.

AUDIT RESULTS

Finding No. 1 AST Did Not Meet the Requirements of the 90 Percent Rule

AST was not in compliance with the 90 Percent Rule, deriving 90.30 percent of its revenues from Title IV, HEA program sources during its fiscal year ended December 31, 2001. As a result of failing the 90 Percent Rule, AST was not an eligible institution and should not have received \$1,100,629 of Title IV, HEA program funds during the period January 1, 2002, through September 30, 2002.

Section 102(b)(1)(F) of the HEA provides that a proprietary institution must have “at least 10 percent of [its] revenues from sources that are not derived from funds provided under title IV, as determined in accordance with regulations prescribed by the Secretary.” The regulations at 34 C.F.R. § 600.5(d)(1) state the following formula for calculating compliance with the 90 Percent Rule:

Title IV, HEA program funds the institution used to satisfy tuition, fees,
and other institutional charges to students. [Numerator]

The sum of revenues generated by the institution from: Tuition, fees, and other
institutional charges for students enrolled in eligible programs as defined in
34 C.F.R. [§]668.8; and activities conducted by the institution, to the extent
not included in tuition, fees, and other institutional charges, that are
necessary for the education or training of its students who are enrolled in those
eligible programs. [Denominator]

“An institution must use the cash basis of accounting when calculating the amount of title IV . . . funds in the numerator and the total of revenue generated by the institution in the denominator” 34 C.F.R. § 600.5(d)(2). “If an institution loses its eligibility because it failed to satisfy the requirement . . . of this section [the 90 Percent Rule], to regain its eligibility it must demonstrate compliance with all eligibility requirements for at least the fiscal year following the fiscal year [it failed the 90 Percent Rule]” 34 C.F.R. § 600.5(g).

In its fiscal year 2001 financial statements, AST reported that it passed the 90 Percent Rule with a calculation of 89.35 percent. During our audit, AST revised its calculation. The revised calculation showed AST derived 90.10 percent of its revenue from Title IV, HEA program sources for its fiscal year ended December 31, 2001. We reviewed AST’s revised calculation and supporting documentation. We determined that AST erroneously excluded \$3,219 in Title IV, HEA program funds from the numerator of the calculation and included them as non-Title IV, HEA program funds in the denominator. We recomputed AST’s revised calculation to adjust for these errors and determined that AST derived 90.30 percent of its revenue from Title IV, HEA program sources during its fiscal year ended December 31, 2001.

AST did not comply with the 90 Percent Rule because it failed to monitor closely the sources of its revenues. AST failed to notify the Secretary of its non-compliance because its independent

public accountant failed to verify properly the amount of revenue AST derived from non-Title IV, HEA sources.

Recommendations:

We recommend that the COO for FSA require AST to

- 1.1 Return \$1,100,629 to the U.S. Department of Education (ED) (Pell and FSEOG) and lenders (FFEL) for Title IV, HEA program funds received during the period January 1, 2002, through September 30, 2002;
- 1.2 Submit documentation supporting its 90 Percent Rule calculation for its 2002 fiscal year. The documentation will enable FSA to verify that AST was in compliance with the 90 Percent Rule for its 2002 fiscal year and therefore eligible to receive Title IV, HEA funds during its 2003 fiscal year;
- 1.3 Review its records for receipt of Title IV, HEA program funds for the period after September 30, 2002, through December 31, 2002; identify the amount of Pell, FSEOG, and FFEL funds received; return the funds to ED and lenders; and have the work attested to by an independent public accountant; and
- 1.4 Develop and implement procedures to ensure it (a) derives no more than 90 percent of its revenue from Title IV, HEA sources; (b) calculates the 90 Percent Rule percentage properly; and (c) reports immediately to the Secretary if its revenue derived from Title IV, HEA sources exceeds 90 percent for its latest fiscal year.

Auditee Comments

AST disagreed with our finding and its recommendations. AST stated it submitted its audited financial statement for fiscal 2001 with the belief that it met all eligibility requirements, including the 90 Percent Rule. AST also stated it did not become aware of the mathematical errors in the 2001 calculation until the OIG's audit in August 2002. AST maintained that its continuing disbursement of Title IV funds was done with the understanding that it was fully eligible. AST stated it regained its eligibility in fiscal year 2002, with only 85 percent of its revenue generated from Title IV sources, and remains in compliance with all Title IV eligibility requirements. AST provided its 90 Percent Rule calculation, prepared by its independent public accountant, for the 2002 fiscal year. The calculation showed AST derived 84.97 percent of its revenue from Title IV sources for the period January through December 2002.

AST asserted that its 90/10 calculation was inadvertently affected by students' failure to repay institutional loans. AST said it did not always aggressively pursue collections on loans, which would have increased its non-Title IV revenue. AST asserted that had it collected its outstanding receivables it would have increased its non-Title IV revenues and met the 90 Percent Rule.

In its comments on our draft audit report, AST discussed "the widely recognized rule" that when a decimal digit is 4 or lower, the number is rounded down, and when the decimal digit is 5 or

higher, it is rounded up. It asserted that the 90/10 calculation is reported in whole numbers, with no further guidance as to the treatment of decimal points. Finally, AST asserted that it meets the 90 Percent Rule with a calculation of .9029, which, applying the rounding rule, is 90 percent.

OIG Response

AST's assertion that it was eligible to participate in the Title IV, HEA programs for its 2002 fiscal year is not correct. However, we revised Recommendation 1.2 to address AST's assertion that it satisfied all the necessary eligibility requirements during its 2002 fiscal year. If AST can provide FSA with documentation showing it complied with the 90 Percent Rule for its fiscal year 2002, we agree that AST should be eligible to participate in the Title IV, HEA programs during its 2003 fiscal year.

AST was not eligible to participate in the Title IV, HEA programs for its 2002 fiscal year. AST failed to derive at least 10 percent of its revenue from non-Title IV sources during its 2001 fiscal year. Therefore, AST was not eligible to participate in the Title IV, HEA programs during the 2002 fiscal year. Federal regulations regarding the 90 Percent Rule (34 C.F.R. § 600.5(g)) state that if an institution loses its eligibility because it failed to satisfy the 90 Percent Rule, to regain its eligibility an institution must demonstrate compliance with all eligibility requirements for at least the fiscal year following the fiscal year it failed the 90 Percent Rule. Under these rules, AST would regain eligibility to participate in the Title IV, HEA programs for the 2003 fiscal year if it can demonstrate compliance with all eligibility requirements during the 2002 fiscal year.

As part of its support that it was eligible to participate during its 2002 fiscal year, AST asserted that the 90/10 calculation is reported in whole numbers. However, neither the HEA nor the regulations provide for rounding. Section 102(b)(1)(F) of the HEA provides that a proprietary institution must have at least 10 percent of its revenues from sources that are not derived from funds provided under Title IV. Our review of AST's financial records showed that AST derived about 9.7 percent of its revenue during its 2001 fiscal year from non-Title IV sources. Therefore, AST failed to obtain at least 10 percent of its revenue from non-Title IV sources and failed to meet the requirements of Section 102(b)(1)(F) of the HEA.

Finally, AST's assertion that collection of outstanding receivables would have allowed it to meet the requirements of the 90 Percent Rule is without merit. According to 34 C.F.R. § 600.5(d)(2), AST must use the cash-basis of accounting. While it may be possible that the school would have met the requirements had it collected additional funds from students, the fact remains that AST did not collect the additional funds. Under a cash-basis of accounting, uncollected funds cannot be used in the 90/10 calculation.

Finding No. 2 AST Overstated the Length of Its Programs

The morning session of AST's Medical Office Assisting (MOA) program did not satisfy the requirements to be considered an eligible program. As a result, AST disbursed Title IV, HEA program funds on behalf of students enrolled in an ineligible program. AST also overstated the length of its Heating, Ventilation and Air Conditioning (HVAC); Medical Assisting (MA); and Computer Administrative Assisting (CAA) programs. As a result, AST disbursed excessive Pell funds on behalf of students enrolled in its HVAC, MA, and CAA programs.

The regulations for an eligible program applicable to AST's programs provide that an eligible program

Must require a minimum of 15 weeks of instruction . . . be at least 600 clock hours [or] 16 semester or trimester hours 34 C.F.R. § 668.8(d)(1).

For purposes of the FFEL and Direct Loan programs only, must [r] equire a minimum of 10 weeks of instruction [and] [b] e at least 300 clock hours but less than 600 clock hours. 34 C.F.R. § 668.8(d)(3). [This type of program] qualifies as an eligible program only if [t] he program has a substantiated completion rate of at least 70 percent . . . [and] [t] he program has a substantiated placement rate of at least 70 percent 34 C.F.R. § 668.8(e)(1).

The morning MOA program was bound by the regulations at 34 C.F.R. § 668.8(k) and (l), which provide that "[i] f an institution offers an undergraduate educational program in credit hours . . . [a] semester hour must include at least 30 clock hours of instruction"

According to 34 C.F.R. § 600.2, a clock hour is "a period of time consisting of

- (1) a 50 to 60 minute class, lecture, or recitation in a 60 minute period;
- (2) a 50 to 60 minute faculty-supervised laboratory, shop training, or internship in a 60 minute period; or
- (3) 60 minutes of preparation in a correspondence course."

AST's catalog listed the MOA (morning session) program as 20 weeks long and offering 480 clock hours or 16 credit hours. Therefore, AST needed to offer 24 clock hours of classroom instruction per week to provide 480 clock hours of instruction within 20 weeks.

We discussed the class schedule for the MOA (morning session) program with AST officials to determine the hours of classroom instruction AST actually offered its MOA students. AST confirmed that it provided its MOA (morning session) students the following class schedule

Monday	9:00 a.m. through 2:30 p.m.
Tuesday	9:00 a.m. through 1:30 p.m.
Wednesday	9:00 a.m. through 2:30 p.m.
Thursday	9:00 a.m. through 1:30 p.m.
Friday	9:00 a.m. through 1:00 p.m.

AST provided its students with two, 7.5-minute breaks and a 30-minute lunch period each day, Monday through Thursday. Based on our analysis of this schedule, we determined the hours of classroom instruction AST offered were less than the hours listed in AST's catalog. AST's schedule provided breaks that separated its class sessions into clearly defined periods of either 52.5 or 60 minutes. Each period of instruction meets the requirements for 1 clock hour of instruction, resulting in 5 clock hours of instruction per day on Monday and Wednesday and 4 clock hours per day on Tuesday and Thursday—a total of 18 hours of instruction each week. AST also provided a 4-hour lab session on Fridays. Students, therefore, were provided a total of 22 hours (18 hours Monday through Thursday plus the 4-hour lab) of instructional time every week, or 440 hours over the entire length of the 20-week program. Using the same conversion factor required by the regulations, the 440 hours of classroom instruction that AST offered only equates to 14.7 (440/30) semester credit hours.

Because it was not at least 16 semester credit hours, and because it did not have substantiated completion and placement rates to satisfy the requirements for a program between 300 and 600 clock hours, the morning MOA program was an ineligible program. As a result, none of the students enrolled in this program could receive Title IV, HEA program funds. During the period July 1, 2000, through June 30, 2001, 78 students were enrolled in AST's morning MOA program. AST disbursed \$174,641¹ of Title IV, HEA program funds on behalf of these 78 students.

In addition to overstating the length of the morning MOA program, AST overstated the length of its HVAC, MA, and CAA programs. AST used the 30 clock hours of instruction it offered to equate to 1 semester credit hour. For example, AST calculated 24 semester credit hours for its HVAC program by dividing 720 clock hours of instruction offered by 30. AST's catalog listed the programs and related clock hours as (a) HVAC (720), (b) MA (900), and (c) CAA (720).

We discussed the class schedules for the HVAC, MA, and CAA programs with AST officials and determined the hours of classroom instruction AST offered were less than the hours listed in AST's catalog. We determined that AST only offered the students in its HVAC, MA, and CAA programs 640, 820², and 640 hours of classroom instruction, respectively. Using our calculated hours of classroom instruction offered and equating the regulatory requirement of 30 clock hours of instruction to 1 semester credit hour, we determined AST overstated its courses' lengths as follows:

¹ Includes \$13,670 in 2001-2002 funds. We are questioning \$2,573 in Finding 1.

² 820 hours comprised of 640 hours for the initial 40 weeks of the program and 180 hours for a 10-week externship.

<u>Program</u>	<u>Catalog Credit Hours</u>	<u>Revised Credit Hours</u>	<u>Credit Hours Overstated</u>	<u>Course Length In Weeks</u>
HVAC	24	21.3	2.7	40
MA	28	25.3 ³	2.7	50
CAA	24	21.3	2.7	40

A full-time student enrolled in AST's HVAC, MA, or CAA program is expected to complete 24 semester credit hours during a 40-week period. MA students also attend a 4-semester credit hour externship. Because AST overstated the length of its HVAC, MA, and CAA programs, students enrolled in those programs were less than full-time students. AST should have disbursed Pell in accordance with the three-quarter-time Pell disbursement schedule, not the full-time Pell disbursement schedule.

In our sample of 50 students, we identified 33 students enrolled in AST's HVAC, MA, and CAA programs. The 33 students received \$73,274⁴ of Pell funds. Because AST overstated the length of these three programs, we determined that AST disbursed \$16,670⁵ of Pell funds in excess of the funds to which these 33 students were entitled.

Recommendations:

We recommend that the COO for FSA require AST to

- 2.1 Return \$174,641 to ED and lenders disbursed on behalf of the 78 students who were enrolled in its morning MOA program for the 2000-2001 award year;
- 2.2 Return to ED \$16,670 of Pell funds disbursed on behalf of the 33 students in our sample who were enrolled in its HVAC, MA, and CAA programs;
- 2.3 Identify all other Pell recipients enrolled in its HVAC, MA, and CAA programs during the period July 1, 2000, through June 30, 2001; determine the amount of Pell funds attributed to the overstated portion of those programs; and return to ED the Pell funds attributed to the overstated portion disbursed on behalf of its students enrolled in those programs; and
- 2.4 Have its analysis and return of funds attested to by an independent public accountant.

³ 25.3 comprised of 21.3 credit hours for the 640 hours during the initial 40 weeks of the program and 4 additional credit hours for the externship portion of the program. We do not consider the 4 credit hours for the externship to be overstated.

⁴ Includes \$27,622 in 2001-2002 funds.

⁵ Includes \$8,878 in 2001-2002 funds. We are questioning \$2,554 in Finding 1.

Auditee Comments

AST disagreed with our finding and recommendations. AST said it has been using the schedule since at least 1992, and neither the State of Ohio nor AST's accrediting body issued a finding regarding course length. AST also said it structured classes to prevent disruption to students and allowed for a 30-minute lunch break and two, 7.5-minute breaks each day. AST stated that it has revised its schedule, and it now offers 10-minute breaks for each hour of lecture or laboratory time.

AST discussed the class schedule for its morning MOA program. According to AST, this schedule included 5.5 hours of instruction each Monday and Wednesday, 4.5 hours of instruction each Tuesday and Thursday, and an additional 4 hours of lab or lecture on Friday for a total of 24 hours per week. AST said this schedule was maintained for 20 weeks, resulting in 480 hours (24 hours times 20 weeks) of instruction. AST also said its evening MOA program followed the same break schedule as the morning program and was not found to be ineligible.

AST maintains that all students enrolled in its MOA, HVAC, MA, and CAA programs were properly treated as full-time students, because all its students were provided all the semester credit hours required. AST also maintains that it properly disbursed Pell Grants using the full-time disbursement schedule. AST stated that, because it considers the finding erroneous, it has not performed the recommended analysis regarding Pell recipients in its HVAC, MA, and CAA programs. Finally, AST stated that should such an analysis be required at a future date, it reserves the right to supplement its submission to ED and include any documentation and analysis deemed necessary.

OIG Response

AST's comments did not contain any evidence that would result in any changes to our finding or recommendations. We did make changes in an attempt to clarify our analysis of the clock hours of instruction AST offered its students. AST asserted that its schedule included 5.5 hours of instruction each Monday and Wednesday and 4.5 hours of instruction each Tuesday and Thursday. However, AST's 5.5 and 4.5-hour class schedules each included a 30-minute lunch break. Therefore, AST only offered 5 hours of instruction each Monday and Wednesday, 4 hours of instruction each Tuesday and Thursday, and 4 hours of lab or lecture each Friday—a total of 22 hours. Over a 20-week period, AST offered students in its morning MOA program only 440 hours, not 480. Using the 30:1 conversion factor, AST's morning MOA program was only 14.7 credit hours. We agree with AST's assertion that its evening MOA program used the same break schedule as its morning program. However, AST offered its evening MOA students 16 clock hours of instruction (4 hours per day, 4 days per week) each week for 30 weeks. Therefore, AST's evening program provided 480 clock hours of instruction.

AST's claims that (1) all students were provided all semester credit hours required, (2) all students enrolled in its MOA, HVAC, MA, and CAA programs were properly treated as full-time students, and (3) Pell Grants were properly disbursed using the full-time disbursement schedule are without merit. AST's morning MOA program was not an eligible program. It was not at least 16 semester credit hours and did not have substantiated completion and placement

rates to satisfy the requirements for a program between 300 and 600 clock hours. As a result, none of the students enrolled in this program were eligible to receive Title IV, HEA program funds. Students enrolled in AST's HVAC, MA, and CAA programs were less than full-time students, because AST did not provide a minimum of 24 semester credit hours of instruction during the 40-week course. Therefore, students enrolled in AST's HVAC, MA, and CAA programs were only eligible for Pell using the three-quarter time Pell disbursement schedule.

Finding No. 3 AST Disbursed \$26,998 of Title IV, HEA Program Funds to Ineligible Students

AST disbursed Title IV, HEA program funds to 6 ineligible students. We reviewed eligibility documentation for 50 students randomly selected from a universe of 367 students who received Pell funds during the period July 1, 2000, through June 30, 2001. Three students were ineligible for Title IV, HEA program funds. AST did not have documentation confirming their citizenship, correctness of their Social Security number, or registration with Selective Service. We also identified 4 students who did not sign their Free Application for Federal Student Aid (FAFSA).⁶ The student's signature is certification that the information shown on the FAFSA (which is used to determine Pell eligibility and need for FFEL program loans) is accurate. The FAFSA is also used to determine if the student has satisfied the Selective Service registration requirements (2000-2001 Student Financial Aid Handbook).

Among other requirements, a student is eligible to receive Title IV, HEA assistance if the student satisfies the (1) citizenship and residency requirements at 34 C.F.R. § 668.33 and 34 C.F.R. § 668, Subpart I; (2) Social Security number requirements at 34 C.F.R. § 668.32(i); (3) Selective Service requirements at 34 C.F.R. § 668.37; and (4) FAFSA signature requirements as shown in the 2000-2001 Student Financial Aid Handbook.

AST disbursed the following aid to the six ineligible students.

	<u>Pell</u>	<u>FSEOG</u>	<u>FFEL</u>	<u>Total</u>
Student No. 1	\$ 1,467		\$ 2,832	\$ 4,299
Student No. 2	\$ 1,467	\$150	\$ 2,715	\$ 4,332
Student No. 3 ⁷	\$ 3,638	\$150	\$ 2,520	\$ 6,308
Student No. 4 ⁸	\$ 1,075		\$ 3,512	\$ 4,587
Student No. 5	\$ 443			\$ 443
Student No. 6	\$ 3,675		\$ 3,354	\$ 7,029
Totals	\$11,765	\$300	\$14,933	\$26,998

AST disbursed \$26,998 of Title IV, HEA program funds for these six ineligible students, because it had no policies or procedures for ensuring that (1) students signed all required forms

⁶ One of the four students (Student No. 1) who did not submit a signed FAFSA also lacked documentation confirming citizenship.

⁷ Includes \$4,702 of 2001-2002 funds.

⁸ Includes \$2,252 of 2001-2002 funds.

prior to disbursing aid, and (2) it resolved Institutional Student Information Report comments regarding student eligibility prior to disbursing aid.

Recommendations:

We recommend that the COO for FSA require AST to

- 3.1 Return \$12,065⁹ to ED (Pell and FSEOG) and \$14,933¹⁰ to the appropriate lenders (FFEL); and
- 3.2 Develop and implement written policies and procedures to ensure it obtains students' signatures on all required forms and resolves any questions regarding student eligibility (such as citizenship, problems with Social Security numbers, or registration with Selective Service) prior to disbursing Title IV, HEA program funds on behalf of its students.

Auditee Comments

AST concurred with the finding and recommendation for Student No. 3 and agreed it should return \$6,308 to ED. However, AST asserted that the remaining five students were eligible, and it made a good faith determination of each student's status.

AST stated that it has instituted new policies and procedures to ensure that all FAFSAs are signed prior to the start of classes. AST described the procedure in its comments, but did not include a copy of the written procedures. Instead, AST referred to a declaration by its Director of Student Services as support for the policies. AST asserted that its third party servicer software does not allow completion of a student record unless all outstanding issues and problems are resolved, including required documentation. AST also asserted that no funds are disbursed to a student until a final review of the student's file and a final review of the Institutional Student Information Report shows all questions are resolved.

OIG Response

We revised the wording in our finding to reflect the fact that AST provided support for the student's signed Statement of Educational Purpose. Because AST did not provide evidence that the students signed their FAFSAs, we revised our recommendation to simply recommend that AST return \$12,065 to ED and \$14,933 to appropriate lenders, dropping "or provide evidence that the six students were eligible to receive Title IV, HEA program funds during the 2000–2001 and 2001–2002 award years." Additionally, we revised our recommendation to recommend that AST commit its new policies and procedures to writing. Committing policies and procedures to writing is important if an AST official responsible for the task were unable to perform his or her duty.

⁹ Includes \$2,813 in 2001-2002 funds that are being questioned in Finding 1.

¹⁰ Includes \$630 in 2001-2002 funds that are being questioned in Finding 1.

Finding No. 4 AST Did Not Calculate Accurately and Make Timely Refunds of All Title IV, HEA Program Funds

AST did not calculate accurately and make timely refunds of Title IV, HEA program funds. We reviewed refund calculations for 24 students who withdrew from AST from July 27, 2000, through January 14, 2002. AST did not use the correct last date of attendance to calculate the Title IV, HEA refunds for 2 students. We also reviewed the checks for 16 refunds that AST was required to make. AST did not make 4 of the 16 refunds timely.

According to 34 C.F.R. § 668.22(c)(1)(iii), “the withdrawal date is . . . if the student ceases attendance without providing official notification to the institution of his or her withdrawal . . . the midpoint of the payment period (or period of enrollment, if applicable).” “An institution must document a student’s withdrawal date . . . and maintain the documentation as of the date of the institution’s determination that the student withdrew . . .” 34 C.F.R. § 668.22(c)(4).

“An institution must return the amount of Title IV, HEA program funds for which it is responsible . . . as soon as possible but no later than 30 days after the date of the institution’s determination that the student withdrew . . .” 34 C.F.R. § 668.22(j)(1). “An institution must determine the withdrawal date for a student who drops without providing notification to the institution no later than 30 days after the end of the earlier of the . . . payment period or period of enrollment . . .” 34 C.F.R. § 668.22(j)(2)(i).

“An institution [that] no longer satisfies a refund standard . . . must submit an irrevocable letter of credit . . . equal to 25 percent of the total amount of title IV, HEA program refunds the institution made or should have made during its most recently completed fiscal year. The institution must submit this letter of credit to the Secretary no later than 30 days after the date that the Secretary . . . notifies the institution of the finding.” 34 C.F.R. § 668.173(c).

Inaccurately calculating refunds for two students resulted in AST returning \$881 less than it should have returned. Not making refunds timely could result in students unnecessarily incurring additional interest on their loans. For the students with loans, these interest charges would be minimal, because AST’s refunds were only 3, 3, 7, and 11 days late.

Discussions with AST officials and our review of the refund checks indicate that the lenders did not cash AST’s refund checks in a timely manner. However, at the time of our audit, AST did not have written refund policies and procedures in place to ensure it made refunds timely and used the student’s correct last date of attendance when calculating Title IV, HEA program refunds.

Recommendations:

We recommend that the COO for FSA require AST to

- 4.1 Return \$881 to ED;
- 4.2 Post a letter of credit equal to 25 percent of the refunds that were made or should have been made pursuant to 34 C.F.R. § 668.173(c), less \$33,007 already posted as a result of a previous SFA audit; and
- 4.3 Adhere to its written policies and procedures for timely payment of refunds to ensure that the determination of the student's withdrawal date and the timing of any refund payment adhere to the Title IV, HEA program refund regulations.

Auditee Comments

AST generally concurred with our finding and recommendations. AST agreed that it incorrectly recorded the last date of attendance (LDA) for two students and concurred with our recommendation to repay \$881 to ED. AST provided support to show it submitted a letter of credit in the amount of \$33,007 on December 19, 2002. AST stated the letter of credit was submitted due to late refunds identified in its SFA audit. AST also concurred that refunds were not made timely for two of four students identified in the draft report, but asserted that refunds for two other students were issued timely. AST commented that it has no control over how long lenders take to negotiate refund checks and should not be penalized for actions taken by the lenders.

AST stated it has implemented a checklist system to properly identify the refunds that have been completed and provided two memos describing its refund procedures. AST also stated it now uses ED software to ensure refund calculations are done accurately.

OIG Response

We revised our recommendation requesting AST post a letter of credit equal to 25 percent of the refunds that were made or should have been made pursuant to 34 C.F.R. § 668.173(c) to reflect the amount (\$33,007) of credit AST has already posted. We also revised our recommendation to reflect the written procedures developed by AST.

However, AST does have control over timely payment of refunds. Federal regulations regarding timely payment of refunds (34 C.F.R. § 668.22(j)(1)) state that an institution must return Title IV funds **as soon as possible**, but no later than 30 days after the date of the institution's determination that the student withdrew. Because AST is aware of lenders' delaying cashing refund checks, it should make every effort to issue refund checks **as soon as possible** to ensure compliance with timely refund requirements prescribed in federal regulations.

OTHER MATTERS

AST Did Not Maintain Evidence that it Notified Students of Pell and FSEOG Disbursements

None of the 50 students' records from our sample contained evidence that AST notified them of Title IV, HEA disbursements. According to 34 C.F.R. § 668.165(a), "[b]efore an institution disburses Title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, HEA program, and how and when those funds will be disbursed." During our audit, we suggested that AST develop and implement written policies and procedures to ensure that students are notified of all Pell and FSEOG disbursements credited to their accounts before those funds are disbursed. AST officials agreed and implemented a Pell and FSEOG Release Form that will be signed by the student after the student's account is credited.

Auditee Comments

AST stated that it developed and implemented a Pell and FSEOG acknowledgment form signed by the student after the student's account has been credited with Pell and FSEOG funds. AST included a copy of the form as part of its response.

OIG Response

While AST provided a copy of the form used, it did not provide any evidence to show it developed and implemented written policies and procedures to ensure that students are notified of all Pell and FSEOG disbursements credited to their accounts before those funds are disbursed. Therefore, we did not revise our suggestion.

AST Did Not Document Entrance and Exit Loan Counseling

During our review of 41 FFEL recipients' files, we noted 35 instances when AST did not have evidence that it provided entrance (6) and exit (29) loan counseling. The regulations at 34 C.F.R. § 682.604 (f) and (g) require schools to conduct initial and exit loan counseling for student loan borrowers. AST has forms to document that students attended entrance and exit loan counseling interviews. However, AST does not have sufficient controls in place to ensure that all student borrowers attend the interviews and complete the entrance and exit loan counseling forms. Because all students that receive loans are not made aware of their loan repayment responsibility, AST's default rate could increase. AST should commit its loan counseling procedures to writing and ensure that all student borrowers are provided entrance and exit loan counseling.

Auditee Comments

AST stated it has implemented procedures to address concerns over entrance and exit counseling and provided a copy of the letter used for exit counseling.

OIG Response

We did not revise our suggestion. We acknowledge that AST has the forms needed for entrance and exit interviews. However, it still lacks controls to ensure that all student borrowers attend the interviews and complete the forms. With its comments on the draft audit report, AST did not provide evidence of written loan counseling procedures. Its support for the policies and procedures is a declaration by its Director of Student Services. Committing its loan counseling procedures to writing would help AST ensure loan counseling is provided to all student borrowers even in the absence of key officials.

BACKGROUND

AST is a private, proprietary school headquartered in Columbus, Ohio. AST offers three diploma programs: Heating, Ventilation and Air Conditioning; Medical Assisting; and Computer Administrative Assisting. AST also offers a certificate program in Medical Office Assisting. The Accrediting Commission of Career Schools and Colleges of Technology accredited AST, and the Ohio State Board of Proprietary Registration approved the programs and licensed AST in the State of Ohio.

During the period July 1, 2000, through June 30, 2001, AST disbursed Title IV, HEA funds totaling \$1,437,286 on behalf of its students. The Title IV, HEA funds consisted of Federal Pell Grants (\$494,573), Federal Supplemental Educational Opportunity Grants (\$19,146), and Federal Family Education Loans (\$923,567). Title IV of the HEA authorizes these programs, and they are governed by regulations contained in 34 C.F.R. Parts 676, 682, and 690.¹¹ In addition, these programs are subject to the provisions contained in the Student Assistance General Provisions regulations, 34 C.F.R. Part 668. AST also must comply with the Institutional Eligibility regulations, 34 C.F.R. Part 600, to participate in these programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether, for the period July 1, 2000, through June 30, 2001, AST complied with Title IV of the HEA and selected regulations governing

- Institutional eligibility (including the 90 Percent Rule);
- Program length (including the 12-Hour Rule and clock/credit hour conversion);
- Commissioned sales;
- Cash management (including maintaining, accounting for, and disbursing funds);
- Financial responsibility;
- Student eligibility and award calculations; and
- Refunds.

To accomplish our audit objectives, we

¹¹ Unless otherwise noted, all regulatory citations are to the codification revised as of July 1, 2000.

1. Reviewed AST's written policies and procedures, course catalogs, accounting records, student financial assistance and academic files, student ledger cards, attendance records, bank statements, bank deposits, and cancelled checks;
2. Reviewed AST's employment agreement for admission representatives;
3. Reviewed the financial statements and student financial assistance audit reports for the years ended December 31, 2000 and 2001, and ED's Office of Inspector General's quality control review of the working papers supporting the student financial assistance audit report for the year ended December 31, 2000;
4. Reviewed FSA, State licensing, and accrediting agency information;
5. Reviewed data from ED's Postsecondary Education Participants System and Education Central Automated Processing System/Grants Administration and Payment System;
6. Reviewed AST's non-Title IV, HEA documentation and independent public accountant's working papers related to the 90 Percent Rule calculation;
7. Reviewed 50 student files randomly selected from a universe of 367 students who received Pell funds for the audit period and refund records for 24 (of the 50 sampled) students who withdrew from AST (these 24 students withdrew from AST from July 27, 2000, through January 14, 2002);
8. Interviewed AST officials, including the President, Director of Student Services, Financial Aid Administrator, and Director of Admissions; and
9. Interviewed AST's independent public accountants.

We also relied, in part, on computer data provided by AST. We assessed the data's reliability by comparing Pell and FFEL information AST entered on students' account cards (which AST maintained in Excel® spreadsheets) to ED's data. Based on these comparisons, we concluded that AST's data were sufficiently reliable to be used in meeting the audit's objectives.

We performed our work at AST's administrative offices in Columbus, Ohio, from May 20, 2002, through August 22, 2002. We discussed the results of our audit with AST officials on July 25, 2002, and August 22, 2002. We performed our audit in accordance with generally accepted government auditing standards appropriate to the limited scope audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of AST's management control structure applicable to its Title IV, HEA programs because it was not necessary to achieve our objectives. To achieve our objectives, we relied on testing of AST's financial aid, academic, and accounting records related to 50 students randomly selected from a population of 367 students who received Pell funds for the audit period. Our testing disclosed instances of non-compliance with federal regulations that indicated significant weaknesses existed in AST's controls over compliance with (1) the 90 Percent Rule, (2) student eligibility, and (3) refunds. These material weaknesses are discussed in the **Audit Results** section of this report.

AST's Comments on the Draft Report

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January 31, 2003

VIA FEDERAL EXPRESS

Mr. Richard J. Dowd
Regional Inspector General for Audit, Region V
U.S. Department of Education
Office of the Inspector General
111 N. Canal Street, Suite 940
Chicago, Illinois 60606

Re: American School of Technology
Draft Audit Control No. ED-OIG/A05C0015

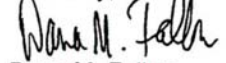
Dear Mr. Dowd:

The law firm of Ritzert & Leyton, P.C. represents American School of Technology with regard to the Draft Audit Report issued by your office on December 3, 2002.

By agreement of the parties, AST is required to submit its written comments on or before February 3, 2003. On behalf of AST, please find attached the School's response and additional materials for your consideration in preparing the final audit report. I would like to express my appreciation for the cooperation and assistance provided by your staff to the School during this process.

I may be reached at the above telephone numbers should you have any questions about the School's response. I, and the staff at AST, would be happy to provide any further information you may find necessary.

Sincerely,



Dana M. Fallon

Enclosures as stated above
DMF/